

RESEARCH NOTE

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TO: Catalyst Investors

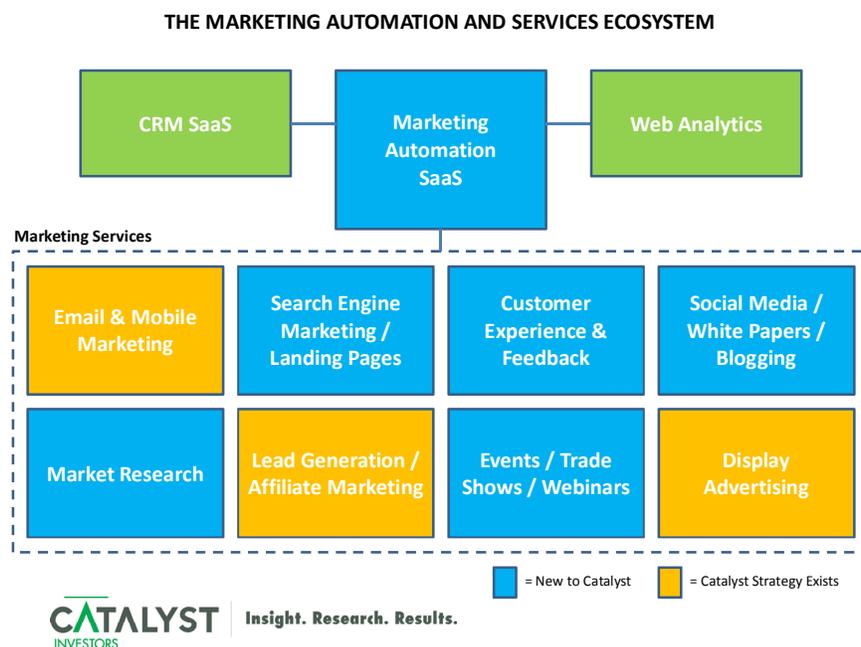
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SUBJECT: **Marketing Automation & Services Market Primer**

Whether through brand or performance marketing, marketing services firms help clients attract and retain customers. Firms can do this through a variety of products such as email marketing, mobile marketing and lead generation, which typically work in unison with client’s sales and marketing teams to optimize an advertising campaign and/or provide significant insight into a target market. As a supplement to the marketing services industry, marketing automation (“MA”) companies offer a software service that simplifies the complex “lead nurturing” process and allows the sales and marketing team to be more efficient and responsive in scoring, nurturing and converting leads. Services that automate outbound responses based on prospect activity and analyze the inbound responses have the ability to quickly move quality prospects through a sales pipeline while ultimately reducing customer acquisition costs.

The current marketing automation and services landscape is very fragmented due to the abundance of available marketing products. Catalyst expects the marketing services industry to consolidate, reducing the amount of outsourced vendors and simplifying the market for enterprises and SMBs. Advertising agencies, internet and media companies, B2B publishing companies and leading “front office” software-as-a-service firms could all be consolidators of various pieces of the marketing automation and services ecosystem.

Ecosystem:



Marketing Automation

MA is a form of lead nurturing that is used to identify, qualify and warm prospects in an automated manner. Leads come into a company (either organically or paid) and the marketing team is responsible for taking the time and energy to follow up, respond to and nurture those potential clients. This process can be very time consuming and costly for a company, especially as the company scales. Yankee Group estimates that 40% to 80% of sales leads are lost, either not followed up or otherwise mismanaged somewhere in the sales and marketing workflow. The ability to track and measure potential leads allow sales professionals to focus their efforts on “sales-ready” prospects, while continuing to monitor and communicate with “lukewarm” leads.

Pardot, a marketing automation company, provides customers with lead management software that features CRM integration, email marketing and data integration. Pardot tracks the activity of a lead and scores them based on that activity to help the sales team prioritize incoming leads (ex. downloading a white paper on the website and/or requesting information about a demo would make a sales lead more valuable, in turn scoring that lead higher). Pardot’s user friendly platform allows clients to set up campaigns based on those leads scores, which increase the efficiency of a sales force and reduces the amount of sales personnel required to follow up with potential clients.

Marketing Services

Email & Mobile Marketing

Customers now expect immediate responses to their online requests and inquiries, typically through email or through the phone. Setting up a platform to create email and mobile marketing campaigns allows companies to connect with leads through various channels and at the appropriate time; when the lead is actively searching for a product.

Exact Target, a leading interactive marketing company, leverages its messaging platform to provide clients with email, mobile & social media marketing. *Exact Target* integrates with its client's CRM and Web Analytics software, making it easy to set up and track the success of automated email and mobile campaigns. Because these marketing tactics can be personalized based on customer behavior, email and mobile marketing has the ability to establish a personal relationship with the client comparable to a direct phone call without the cost and time from a sales person.

SEM/Landing Pages

Having the ability to create effective landing pages and Search Engine Marketing (SEM) can directly influence the number of leads that are generated through your website or online presence. There are many online marketing companies that focus on SEM and landing page optimization, enabling clients to "get found" on the web by potential customers.

iCentera creates easy to use, personalized websites and landing pages that enable companies, sales channels and their customers to communicate and collaborate with any audience. *iCentera* also provides analytics to understand the effectiveness of the customer portals and customer behavior and trends. Such analytics and automated platforms give marketing and sales teams a leading edge to generating and tracking more leads.

Lead Generation/Affiliate Marketing

Lead generation is a form of performance marketing that generates potential customers (leads) for business clients. There is a whole ecosystem of business models that supports the lead generation function, from ad networks, web analytics, and digital marketing agencies to different types of pure lead generation models. The most compelling business model is a Content Master that is able to aggregate other companies' content or user-generated content, generating a high gross margin (60-70%) by not having to pay the high cost of buying advertising or producing content. Websites such as *Bankrate.com*, *LendingTree.com*, *Insurance.com* and *CreditCards.com* (Content Masters) improved the likelihood of closing transactions and reduced back office expense. *Bankrate.com* has been a leading aggregator of consumer interest rate information for publication on publications like the Wall Street Journal for 30 years. With the Internet, Bankrate was able to transform into a lead generation company by allowing lenders and savings banks to sponsor links in the rate tables, paying on a CPC basis. Bankrate qualifies its

leads with online forms in which potential customers request information about particular products and request to be contacted by product providers, selling leads on a CPL basis. Bankrate also syndicates rate information on to other relevant sites, which can be clicked on to create leads.

Please refer to our Online Lead Generation research report dated March 31, 2010 for more detail on the lead generation landscape.

Display Advertising

Display advertising is a form of brand advertising that “warms” potential leads by building brand and product awareness. The online display ad market consists of banner ads, rich media, and video, and is usually measured by the number of views or impressions. The display advertising market is very complex with various middlemen between advertisers and publishers such as DSP’s, SSPs, Ad Networks and Ad exchanges.

Please refer to our Real Time Bidding market primer dated December 9, 2010 for more detail on the display advertising technology landscape.

Social Media/Blogging/White Papers

Another way to market your company and drive leads to your website is by producing relevant content through blogging, white papers or any type of social media. Companies such as *Six Apart*, who support products such as *Movable Type*, *Blogs.com* and *TypeKey*, allow publishers to upload and share content through blogging. Sometimes called Content Management Systems (CMS) these platforms allow clients to manage their entire website through a single dashboard. Users have the ability to upload all types of media including video, images, audio, etc. Other companies in this space include businesses similar to *TweetDeck*, which helps marketers consolidate and manage their social media traffic or digital media companies such as *BuzzLogic*, which optimizes ad locations by placing ads next to someone discussing the same product or a complement to that product, such as on a blog.

Customer Experience & Feedback

As the average person tells one to five people about a good experience, and ten or more about a bad one, learning about your customers experience during the sales process is extremely important to a company.¹ Additionally, a bad customer service reputation in the industry can be very damaging to a company; therefore it is important to know how your clients are feeling about your product and service so you can improve by adding staff or addressing a larger issue.

Systino, an automated survey system reaches out to your customers and asks for their feedback to monitor a client’s reputation in the industry. Systino tracks service quality and customer satisfaction through a net promoter score, determining the customers who are “promoters” of your product and

¹ Sales & Marketing: The New Power Couple. Peppers & Rogers Group. 2008.

those that are “detractors.” Companies are sensitive to customer complaints about service and products and in order to be competitive and reduce churn, companies must have measurements in place to monitor their feedback. Companies like Systino are focused on customer retention and loyalty, which is extremely important and cost effective as it costs more to attract a new client vs. upsell or improve an experience with a current client.

Market Research

Market research companies such as Gartner and Forrester provide clients with detailed and objective analyses of their industry, competitors, products and/or services. The industry knowledge provided by a these research reports is sometimes essential to the success and product positioning of the company. *iSuppli Corporation*, a market research firm recently acquired by IHS, specializes in the electronic, manufacturing and supply chain markets. Not only do they supply industry teardown analysis on competitor pricing but they also give clients access to dashboard tools and weekly reports to stay current on industry trends. The knowledge provided by iSuppli helps facilitate senior management decision making and assists in the understanding of specific market segments. Such firms also can partner with marketers to produce whitepapers, webinars and content for trade shows and other events.

Events/Trade Shows/Webinars

Events such as trade shows are very popular marketing techniques that display a company’s brand and product offering to a targeted group of potential clients. Typically trade shows or events showcase a certain industry or product, allowing prospects to learn more about the company and possible have face to face interaction with a sales team. Trade shows provide an opportunity for both brand advertising and lead generation. Many B2B publishers run the events themselves and software providers such as *Cvent* help manage event schedules, budgets and lead content information. Other marketing techniques include Webinars, which are much lower in cost than an on-site visit and can be just as effective. *GoToMeeting* and *GoToWebinar*, part of *Citrix Systems*, provide web conferencing solutions for services such as product demos or company presentations.

List of Companies

Marketing Automation

Marketo
Genius.com
Vtrenz (Silverpop)
MarketBright
Market2Lead
Manticore
Eloqua
Pardot
Harte Hanks
Clickequations

Email & Mobile Marketing

BLI Messaging
Premier Global
AdMob (Google)
iAds (Apple)
Atmio
NetResults
SilverPop
Exact Target

Customer Experience & Feedback

Survey Monkey
Allegiance
Systino
Inavero
SatMetrics
Foresee Results
Vovici

Events/Trade Shows/Webinars

Cvent
Voila
GoToMeeting (Citrix)
WebEx (Cisco)

Market Research

iSuppli
Gartner
Forrester
Arbitron
Decision Analyst
Harris Interactive
IBISWorld
International Data Corporation (IDC)
Kelton Research
Juniper Research
Intel
Nielsen
SIS International Research
NDP Group

SEM/Landing Pages

iCentera
Plurapage
OrangeSoda
iProspects
WebiMax
Stratigent
Performics
SiteTuners.com
FutureNow, Inc
SiteSpect, Inc
WiderFunnel Marketing
Baynote
Ion Interactive
SearchForce

Social Media/Blogging/White Papers

LinkedIn
Facebook
Twitter
Genius.com
TweetDeck
PointRoll
BuzzLogic
HubSpot
Six apart
Squarespace

Industry Overview

Market Trends Leading to the Adoption of Marketing Automation

As recently as five years ago, direct marketers interacted with customers through three channels: call centers, direct mail and face to face. Today, even small to mid-sized businesses reach customers through dozens of channels, email, mobile, trade shows, resellers, internet, etc.² Marketing channels have therefore transformed and the way we communicate has drastically changed. Companies have to change the way they market and support a multi channel approach through marketing automation to reach customers wherever they are on the web.

Buyers are now hesitant to engage over the phone and are now more inclined to respond to email or text. The most effective way to communicate over these channels is by automated responses, which reduces the costs and time required of sales and marketing teams. Automated software enables marketers to “warm” leads until they are ready to buy, especially through drip campaigns or email marketing which helps build relationships and trust.

Outsourced Services

Similar to outsourcing a company’s IT resources, outsourced marketing and sales products let the company focus on their core products and services. Gartner expects the global outsourcing market to continue to grow despite the economic downturn as Business Process management (BPM) investments can provide a cost savings of as much as 20% within the first year of implementation. Especially in the economic downturn, BPM is considered a lifeline keeping some companies above water.³ Marketing budgets are known to be the most sensitive during an economic downturn, but marketing processes that can be automated to drive revenue and cut costs maximize marketing budgets and ROI.

In 2008, American Business Media conducted a survey to determine how media dollars were going to be spent. Marketers show the most interest in purchasing data and lead management (46%) and customer insights (60%) and when it comes to the top marketing objectives, “building deeper insights into client base” is still the most important (87%).⁴ A CRM platform and database that stores and shares information on leads is essential to turning prospects into sales leads and ultimately sales leads into the end client.

²“ Advanced Marketing Automation.” A SAS White Paper.

³ Garnter Says Enterprises Can Experience As Much As 20 percent Cost Savings...2009.

⁴ Marketing Services drive B2B publisher growth, study finds. August 2010.

<http://emediavitals.com/blog/1005/marketing-services-drive-b2b-publisher-growth-study-finds>

Marketing platforms

According to a report by BMO Capital Markets in 2009, “Ad Agencies and Marketing Services”, the digital marketing hub applications and related services revenue (including market research) is approximately \$46 billion and should resume a mid single digit growth rate after a 2% pull back in 2009. The highest growth rates in that industry come from the marketing focused CRM applications, including marketing automation application revenue, expected to grow 8% in 2010, 7% in 2011 and 8% in 2012. **CRM marketing automation application revenue growth rates increase from 4% in 2010 to 8% year over year in 2012, reaching a \$10 billion market by 2012.**

Benefits to outsourcing – the SMB Advantage

Reasons to outsource any aspect of your business remain are increased efficiency & lower costs, allowing the company to concentrate on core values and products. Outsourced marketing products are ideal for small to mid size businesses that lack the resources to implement an effective marketing team, either due to lack of funds to hire an appropriate marketing manager or the inability to handle the expense of a CRM system. Instead of just hiring a consultant for sales advice, a more efficient solution is to implement an automated system that your sales associates can use daily.

Due to a SaaS product, which is the preferred deployment method for MA, training is limited and set up time is much faster because of the virtual product. SaaS products help smaller firms act “big” by giving them access to the same economies of scale, efficiencies and expertise that large companies enjoy.

Consolidations

Ad Agencies – Search engine marketing, social media and RTB platforms have been of great interest to advertising agencies that have been seeing some of their core businesses get eroded by the Internet.

Vertical B2B Publishers – Lead generation, event providers, market research firms and vertical ad networks are natural fits to be grouped within vertical B2B publishing platforms.

Internet/Social media firms – Google, Yahoo, Facebook and other internet and media firms have been interested in display ad technology, search marketing, social media marketing and mobile marketing firms.

CRM/marketing automation/analytics – Larger CRM and analytics firms are likely acquirers of marketing automation firms and certain parts of the display ad tech market. In addition, there is a natural fit between marketing automation firms and email and mobile marketing, SEM management and social media marketing firms.